

Transaction Report of the Milco (private) Limited for the year ended 31 December 2020, 2021 and 2022

The audit of operating activities of the Milco (private) Limited for the year ended 31 December 2020, 2021 and 2022 were carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. In accordance with Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka, this report shows my observations regarding the functioning of the Board which intend to submit to the Parliament.

1.2 Responsibilities of Management and Those Charge with Governance for the Financial Statements

As per sub section 16(1) of the National Audit Act No.19 of 2018, the company is required to maintain proper books and records of its income, expenditure, Assets and liabilities, to enable annual and periodic financial statements to be prepared of the entity.

According to the section 16(2) of the said Act, the annual financial statements in respect of each audited entity, should be submitted by the Chief Accounting Officer to the Auditor General along with the annual performance reports within such period as may be prescribed by rules.

In terms of section 38 (1) (d) of the said Act, the Chief Accounting Officer should ensure the timely preparation and submission of annual reports and other financial statements and in addition he is required to submit annual reports to Parliament pertaining to the entity.

1.3 Presentation of financial statements

Audit Observation

According to section 6.5.1 of the Public Enterprise Circular No. PED/12 dated 02 June 2003, the financial statements and draft annual report for the years 2020 and 2021 within 60 days of the end of the accounting year and the paragraphs of the operational manual presented with Circular No. 01/2021 dated 16 November 2021 According to number 6.6, the financial statements and draft annual report of the year 2022 should be submitted to the Auditor General within 60 days after the end of the accounting year. However, the financial statements and draft annual reports for the years 2020, 2021 and 2022 had not been submitted to the Auditor General by 24 March 2023.

Comments of Management

- 2020 - Draft accounts have been prepared.
- 2021 and 2022 - There has been a delay in the preparation of the draft accounts due to an error in the computer systems, and the updating of the computer data is currently ongoing.

Recommendation

The 2020, 2021 and 2022 financial statements and draft annual reports should be prepared and submitted to the Auditor General without delay.

2. Non-compliance with Laws, Rules, Regulations and Management Decisions

Reference to Laws, Rules, Regulations etc.	Non compliance	Comments of management	Recommendation
(a)Public Enterprise Circular PED 03/2020 dated 18 December 2020	The circular had stated that while paying bonuses for the year 2020, the State Owned Enterprises should make the payments based on the audited financial statements of the year 2019. Accounts for the year 2019 were submitted to the Auditor General on 16 August 2022, about 30 months late. Prior to the audit of those accounts, contrary to the circular, 1350 executive and non-executive officers had been paid Rs.19,086,375 as bonuses in the year 2020 at the rate of Rs.15,000 per officer.	Milco company did not follow the government enterprise circulars in the payment of bonuses, and payments had been made according to the decisions of the board of directors.	As per the circular, fully state-owned companies should make payments based on the audited financial statements of 2019 while paying bonuses for the year 2020.
(b)Public Enterprise Circular PED 03/2021 dated 15 December 2021	The circular stated that the bonuses for the year 2021 should be paid based on the 2020 audited financial statements. The company had submitted its financial statements for the year 2020 for audit on 11 August 2023, about 30 months late. Contrary to the circular before the accounts are audited for the year 2021, 1356 employees were paid Rs.25,921,238 on 09 April 2021 at Rs. 20,000 per officer, and Rs.14, 800,907 were paid on 21 December 2021 at Rs. 11,657 per officer as bonuses.	Milco Company had not followed the government enterprise circulars in the payment of bonuses, and payments have been made according to the decisions of the board of directors.	According to the circular, the bonus for the year 2021 should be paid based on the 2020 audited financial statements.
(c) PED 09/2022 and Public Enterprise Circular dated 21 December 2022	For the year 2022, the payment of bonuses should be made based on the financial statements of the year 2021, and it has been stated that if there is a loss in the year 2021, there is no entitlement to bonuses. Although the company has not submitted the financial statements for the year 2021 by 24 March 2023 and there is no information about the company's profitability. Contrary to the said circulars, Rs 10,000 for each officer, Rs.13, 044,888 and Rs.12, 719,687 were paid on 11 April 2022 and 23 December 2022, as bonuses to executive and non-executive employees, respectively.	Milco Company had not followed the government enterprise circulars in the payment of bonuses, and payments have been made according to the decisions of the board of directors	According to the circular, the payment of bonuses for the year 2022 should be made based on the financial statements of the year 2021.

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| (d)Public Enterprise Circular PED 12 dated 02 June 2003 Section 5.1.3, Public Finance Circular No. 01/2014 and dated 17 February 2014 and Section 2.3 of the Guidelines for Good Governance of Public Enterprises submitted with Circular 01/2021 dated 16 November 2021 | A corporate plan or strategic plan covering the years 2021 and 2022 was not submitted for audit until the date of the audit, 28 February 2023. | In the years 2020 and 2021, it was not possible to prepare a business plan for the years 2021 and 2022 due to the spread of the Covid disaster in the country and other confusing situations. However, an annual action plan has been prepared for each year. | According to the circular, a corporate plan or strategic plan should be prepared covering the years 2021 and 2022. |
| (e) Paragraph 4.2.1.(b) of the Procurement Guidelines Code | The company should prepare the master procurement plan and list the expected procurement activities for a period of at least three years, which should be updated regularly at intervals not exceeding six months. However, a procurement plan including such matters was not prepared for the three years 2020, 2021, and 2022. | At present, attention has been paid to this matter, and a procurement plan has been prepared for the year 2023. | A master procurement plan should be prepared in accordance with the Code of Procurement Guidelines. |

3 Operational Review

3.1 Identified Losses

Audit Observation

After the installation of the new plant under the factory modernization projects, 771,652 kg of milk powder produced in July 2017 was issued and sold with test reports that it was free from defects, and due to customer complaints, it was brought back to the warehouses due to it was unfit for human consumption. After selling 720,000 kilograms of milk powder worth 475.2 million rupees as animal feed from the year 2018 to the year 2022, the remaining 561,264 kilograms have been stored in Ambewela factories on December 31, 2022. No investigation had been conducted against the officials responsible for the production of milk powder unfit for human consumption.

Comments of management

The remaining stock of milk powder, which is unfit for human consumption, was also sold, and efforts are being made to remove the stock.

Recommendation

Should conduct a disciplinary investigation and recover the loss from the responsible parties.

3.2 Management Inefficiencies

Audit Observation

- (a) The details of milk powder, butter, cheese, cow ghee, and other milk-related products issued free of charge to the employees of the company from the entire production of 2020, 2021, and 2022 are given below, and no acceptable approval for this which submitted to the audit.

Product Type	2022		2021		2020	
	Total Production	Free issued Quantity	Total Production	Free issued quantity	Total Production	Free issued quantity
1.Milk powder (Kg)	2,060,294	38,992	2,806,395	42,172.8	4,264,012	25,849
2. Butter (Kg)	360,889	1,800.35	578,372	1,525.5	726,389	892.78
3.condensed milk(Liter)	739,092	3,122.61	929,671	3,417.21	873,749	2,155.58
4.cheese (Kg)	30,666	480.51	21,666	491.8	34,151	0.8
5.Fresh milk(liter)	10,331,807	11,926.59	16,324,547	9,011.5	14,248,148	3,421
6.Ghee (liter)	67,342	697.65	92,802	555.65	85,258	309.35

Comments of management

This quantity has been released for giving gift parcels to the employees, and gift parcels have been given continuously to the staff in the months of April and December of the year.

Recommendation

Transactions should be treated as illegitimate.

- (b) During the sample inspection conducted for the purchase of diesel stocks from the year 2015 to 31 August 2022 to the Ambewela factory belonging to Milco , it was observed that Rs. 17,209,467 worth 165,300 liters of diesel that had been issued by the Petroleum Statutory Corporation had not been unloaded into the oil tanks of the Milco factory.

The internal audit department conducted a full audit regarding a diesel stock irregularity, and according to the facts revealed by the report, the officials who are considered responsible have been suspended, and further disciplinary investigations are being conducted. The Criminal Investigation Department is also conducting investigations.

Disciplinary action should be taken against all parties involved in fuel irregularities, and strong internal controls should be introduced to prevent such frauds.

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| <p>(c) From the year 2017 to 31 August 2022, during the inspection of the documents of the security department of the receipt of fuel stock to the factory, it was observed that 14 bowers carrying 92,400 liters of diesel worth Rs. 9,364,835 had not entered the factory, but the fuel had been paid for. It was observed that the signatures appearing on the invoices related to certain consignments were not comparable with the signatures of the security department officers.</p> | <p>The internal audit department conducted a full audit regarding a diesel stock irregularity, and according to the facts revealed by the report, the officials who are considered responsible have been suspended, and further disciplinary investigations are being conducted. The Criminal Investigation Department is also conducting investigations</p> | <p>Disciplinary action should be taken against the parties involved in the fuel irregularity.</p> |
| <p>(d) In the Ambewela Dairy Factory owned by Milco, a sample check was conducted regarding diesel emissions from tanks for the generator from the year 2019 to 31 August 2022 in the factory. A quantity of 58,703 liters of diesel was missing between the amounts mentioned in the stock books and the documents maintained by the engineering department.</p> | <p>The internal audit department conducted a full audit regarding a diesel stock irregularity, and according to the facts revealed by the report, the officials who are considered responsible have been suspended, and further disciplinary investigations are being conducted. The Criminal Investigation Department is also conducting investigations.</p> | <p>Disciplinary action should be taken against the parties involved in fuel irregularities, and a strong internal control system should be introduced to expose such frauds.</p> |

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| <p>(e) According to the frauds that have occurred during the purchase and issuance of fuel at the Ambewela Dairy Factory, it was observed that the internal control of the process is very weak to prevent such frauds, and it was the responsibility of the top management to establish a strong internal control system.</p> | <p>An internal control system had been established for maintaining fuel stocks, and some officials acting outside of that process have led to this fraud. Therefore, a program has been arranged to monitor compliance with that internal control system constantly.</p> | <p>A strong internal control system should be established in purchasing and issuing fuel</p> |
| <p>(f) In order to encourage farmers to supply milk to the institution, according to the board decision taken on 08 January 2021, it was decided to increase the incentive given to farmers who supply milk in large quantities by one rupee and make payments from January 2021. Before payment of incentives, the total milk collection in the fourth quarter of 2020 was 2,610,040 litres, followed by 1,755,447 liters in the fourth quarter of 2021 and 1,789,234 liters in the fourth quarter of 2022 respectively. Accordingly, even after the incentive was paid, no increase in milk supply was observed, so the incentive paid had become an uneconomical expense.</p> | <p>Under the huge competition in the field, other organizations increased their prices, and our company also increased the price to face that competition. If the price was not increased by a certain amount, there was a risk that the amount of milk being received by Milco would decrease rapidly.</p> | <p>A Review should be done for the incentive paid to milk suppliers.</p> |
| <p>(g) Although the statement of financial position showed a value of Rs.6,065,801,089 as fixed assets, no physical verification was done regarding the fixed assets and due to the fact that the company does not maintain a properly maintained fixed asset register, the accuracy of the cost, existence, depreciation calculations, cost of disposed assets, etc. of fixed assets could not be ascertained during the audit</p> | <p>The list of fixed assets of the company is maintained in an Excel spreadsheet, and the internal audit department is taking actions to verify its accuracy.</p> | <p>The company should maintain a fixed asset register where the assets are physically verified and updated.</p> |

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| <p>(h) In the Ambewela factory in June 2017, new machines installed in June 2017 have been unable to operate the improved electrical system due to frequent power outages in the national power connection. As a result, tenders were called for the supply and installation of a uninterrupted power supply unit in order not to damage the operation of the machines in the event of such a power failure, but after awarding the tender to the selected supplier, the company filed a case against Milco for canceling it after a new board of directors came. In the future, there may be an uncertain cost for this, and due to the fact that the new electrical system (MV panel) could not be used for the work of the factory as expected due to the failure to purchase the supply units, the power generators had to incur high costs.</p> | <p>Efforts are being made to settle the case without prejudice to the company and to establish a UPS system.</p> | <p>An uninterruptible power supply unit should be established immediately.</p> |
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3.3. Operational inefficiencies

Audit Observation	Comments of management	Recommendation
<p>(a) In the examination of the action plan and progress of the year 2020, the achievement of the desired results in respect of 03 activities in the milk-related products and milk procurement sector was at zero level, and the target achievement in respect of another 13 activities was at a minimum level of 2 percent to 69 percent.</p>	<p>Due to the Corona epidemic situation in the country, many targeted programs could not be achieved.</p>	<p>Action should be taken to achieve the goals of the action plan.</p>
<p>(b) In the field of dairy product development and milk procurement, which is a major operational activity of the company, the short-term objectives are to increase the annual milk collection to 96 million liters in 2021 and increase the annual average income of dairy farmers by 12 percent. 13 programs were identified during the year to broadcast the milk collection network and were planned to be implemented under 34 sub-programmes. Although an amount of 424.77 million rupees had been allocated for those activities, a minimum financial progress of 8.6 percent of the allocation had been achieved by actually spending 36.33 million rupees. Physical progress achieved in respect of 25 sub-programmes ranged from zero to 67 percent at a low level.</p>	<p>Due to the Corona epidemic situation in the country, many targeted programs could not be achieved.</p>	<p>Development of milk-related products and procurement of milk should be done to achieve the targets.</p>
<p>(c) According to the action plan for the year 2021, 08 programs were planned under the sales and marketing department of the company, and 48.9 million rupees were allocated for them, but the actual cost was 6.7 million rupees and the financial progress was a minimum of 13.7 percent. Out of the 08 programs, the 4 activities of establishing 5 outlets and 3 regional sales outlets of</p>	<p>Most of these progress documents are not prepared separately, and if required, they can be prepared and submitted.</p>	<p>According to the action plan, the necessary evidence should be submitted to the audit to verify</p>

the company, distribution of 300 freezers for retail stores, and construction of 3 cold rooms for storing yogurt and butter had not been accomplished, so the main sources of income of the organization had not been improved. Out of the remaining 4 activities, 19 out of 25 new distributors, 1484 out of 5000 outlets, 88 out of 50 franchise outlets, and 160 out of 400 name boards had been distributed. The following evidence was not submitted to the audit to verify the accuracy of the same activities:

the correctness of the company's activities.

- (i) Details of registered agents (name, date of registration, address, bank guarantee details, outstanding sales amount for the years 2021 and 2022)
- (ii) Location, date of opening (Private Sector and MILCO), outstanding sales of outlets opened in 2021, 2022
- (iii) 2020, 2021 Franchise Outlet Locations, Opening Date (Private Sector and Milco) and Outstanding Sales
- (iv) Regional Sales Center Locations, Opening Date, Ownership (Private Sector and Milco) and outstanding sales for 2020 and 2021;
- (v) locations, date of establishment and ownership of retail outlets;
- (vi) To whom name boards were distributed during the year 2021 and the dates of distribution

(d) Networking milk collection centres in a region with the head office, human skill development programs and program of develop competitiveness among farmers, which were included in the action plan for 2021, were not implemented.

Many targeted programs could not be achieved due to the Corona pandemic situation in the country, and these programs are currently being implemented.

Each program in the action plan should be implemented.

(e) According to the action plan, the collection of raw milk was expected to increase to 96,551,000 liters in 2021, and the actual amount of milk collected during the year was 67,905,259 liters. The progress was 70 percent, but the desired result was not achieved.

There has been a decrease in Milco's milk collection due to the overall decrease in milk production in the country and the collection of milk by competing institutions without considering the quality specifications.

The desired result should be achieved as per the action plan

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| (f) Information regarding the physical and financial progress of the planned activities of the information technology department of the Colombo, Digana, Ambewela, and Polonnaruwa dairies included in the action plan submitted in relation to the year 2021 was not submitted to the audit. | Many targeted programs could not be achieved due to the Corona epidemic situation in the country, and these programs are currently being implemented. | Information regarding the physical and financial progress of the planned activities should be submitted to the audit. |
| (g) Although the company has prepared the operational forecast report for the year 2020, the operational forecast report for the year 2022 has not been prepared, so it is not possible to evaluate the operational progress of the company. | Operational forecasts have been prepared for the year 2021, and operational forecasts have not been included in the action plan as the action plans have been prepared in a different manner in the year 2022. | Company should prepare operational forecast report. |
| (h) Key performance indicators to be achieved were not established for the year 2022. | As the 2022 Action Plan was prepared in a different manner, performance indicators have not been established. | Performance indicators should be established. |
| (i) The company had established 14 key performance indicators related to increasing the annual raw milk collection to 96 million liters by the end of 2021 and increasing the annual average income of dairy farmers by 12 percent. The expected results have been achieved at a minimum level of 35 to 71 percent of 03 main performance indicators that were implemented to achieve the above-mentioned objective of increasing the amount of raw milk collection, introducing new entrepreneurs for the dairy industry, and creating new mega farmers. | Due to the Corona epidemic situation in the country, many targeted programs could not be achieved. | Action should be taken to achieve the established performance indicators. |
| (j) According to the Cabinet decision No. AMA/15/0205/631/012 dated 11February 2015, approval was received to implement the Badalgama Dairy Factory Project. In 2015, with an investment of 63.9 million euros, the construction work was handed over to a Denmark private construction company, but the construction work, which should have been completed by the end of 2020, was not completed by February 2023. But while preparing the key performance indicators for 2021, it was stated that the construction work has been completed 100 percent. | Due to the corona epidemic situation in the country and the declaration of bankruptcy of Sri Lanka in 2022, payments to foreign countries were suspended by the Treasury. Nearly 10% is in the stage of further completion. | According to Key Performance Indicators, construction activities at Badalgama Dairy Factory must be completed in due time. |

- (k) By 2021, the market share for "Highland" products is expected to grow from 25 percent to 35 percent. In relation to that, as main performance indicators, performance indicators have been established as increasing the sales amount to Rs. 17 billion, increasing the sales amount of liquid milk to 26 million liters, reducing the number of customer complaints to 100, etc. The following observations are made in relation to it.
- (i) In order to achieve the desired market share, the quantity of milk which is the main input required to produce the desired output is essential to purchase a significant amount of the total milk production in the country. The company's purchase of milk required for its production activities was as low as 14, 13 and 9 percent of the total liquid milk production in the country in the years 2020, 2021 and 2022 respectively.
- (ii) In the years 2020, 2021 and 2022, the actual liquid milk sales were 17,891,573 liters, 20,705,024 liters and 16,012,534 liters respectively. The amount of liquid milk sales had gradually decreased and although the current market trend is the consumption of liquid milk, the management did not focus on it and increase the sale of liquid milk.
- (iii) It was submitted to the audit that the number of customer complaints regarding Highland products was expected to be reduced from 260 in 2020 and to 100 in 2021, but 798 complaints were received in 2020 and 598 in 2021. Accordingly, it was observed that the customer dissatisfaction with the company's products is increasing. Since the received complaints were not submitted to the audit, it was not possible to analyse it.
- (iv) In total, out of the 14 performance indicators expected by the company in the year 2021, 7 indicators namely introducing new dairy farmers to the industry, establishing new mega farmers, constructing cold rooms in Digana and Polonnaruwa factories, obtaining ISO 22000 standard certification for Digana and Polonnaruwa and Badalgama factories, increasing the yoghurt sales to 146 million cups, increasing the expansion of stores with Highland products and reducing the service complaints were significantly lower. A comparison with previous years was not properly established to achieve a more objective approach in establishing performance indicators.
- Answers had not been given.
- The company should increase the purchase of milk required for its production activities.
- There had been a decrease in the amount of milk collected by the Milco Company in the year 2022, so the production of liquid milk has also decreased to some extent.
- Action should be taken to increase the liquid milk production.
- Actions are being taken to reduce customer complaints, and compared to 2020, progress has been made in reducing customer complaints in 2021.
- Action should be taken to reduce the number of customer complaints and submit the details to the audit.
- Answers had not been given.
- Performance indicators should be established in a more paternal way.

- (l) In comparison to the year 2020, a reduction of 8, 16, 12, and 0.1 percent was observed in the progress of raw milk collection in Kurunegala, Kandy, Ampara, and Uva regional regions in 2021, respectively. Compared to the year 2021, it was observed that the collection of raw milk in all regional zones in the year 2022 has decreased in the range of 53 to 13 percent.
- Due to decrease in milk production in the country and stiff competition, milk collection of Milco Company is showing decrease.
- Raw milk collection should be increased to increase the production.
- (m) According to the progress of the company's products in the years 2020, 2021 and 2022, relative to the year 2020, a decrease of 3.8 and 15 percent was observed in the progress of the production of cheese, butter and milk powder in the year 2021, respectively. In comparison to the year 2021, there was a rapid decrease in the range of 64 to 15 percent of products other than pasteurized milk and non-pasteurized milk products in 2022.
- Compared to the decrease in milk collection, there has been a decrease in production progress.
- Production should be increased along with the demand of milk products.
- (n) During the inspection of the milk transport bowsers, LL5724, LL1351 LK1923, LJ4560, LN3801, LK1573, LI3915, LN2050 and GR1907 were sold by the owners of the bowsers which were rented from private owners along with the tank installed by the company. As this is a violation of the agreement, legal action should have been taken against the owners of bowser in this regard, but it was not done.
- Although the owners of the vehicles sell them to other parties, Milco owns the tankers and the new parties who purchased the vehicles maintain milk transport contracts with Milco.
- In relation to breach of conditions, the agreement should be canceled and compensation should be recovered as per clause 31 of the agreement. Agreement should be made with owners of new Bowsers.
- (o) In the year 2020, all the 04 factories belonging to Milco company employed 71 bowsers for transporting milk without following the procurement process and during the year under review a cost of Rs.203,781,417 was paid for bowsers only for transporting 46,119,573 liters of milk. Accordingly, the average cost of a liter of milk was Rs.4.42 and this high transportation cost had also affected the increase in the unit cost of milk, but the top management did not pay attention to it.
- Number of Routes are planned so as to minimize the transportation cost per liter of milk, and continuous attention is paid to the unit cost of milk.
- To recover the cost of transportation as it affects the unit cost of milk, bowser vehicles should be procured by inviting competitive prices as per the provisions of the procurement guidelines.

3.4 Idle or Underutilized Property Plant and Equipment

Audit Observation	Comments of Management	Recommendation
(i) The Yoghurt mixing machine worth Rs.104, 177,779 purchased on lease basis for the Colombo factory of the company on 20 January 2011 had been left unused for 12 years due to manufacturing defects.	Yoghurt mixing machine is unusable and its parts are being used in machinery repairs in other factories.	Production machinery should be utilized to the maximum.
(ii) The machine for producing sterilized milk bottles which cost Rs.9, 500,000 in Digana dairy factory owned by the company and the machine for producing ice cream containers which cost Rs.15,445,587 in Colombo dairy factory were underutilized by 46 percent and 71 percent respectively.	The machines are underutilized due to the insufficient milk stock required to utilize them at full capacity.	Necessary actions should be taken to use the machines to their full capacity.
(iii) Although the total capacity of the old and new factories of Ambewela Dairy is 9,300,000 litres, according to the information submitted to the audit up to August 2020, 2021 and 2022, the average capacity utilization was 3,052,858 litres, 2,675,819 liters and 1,690,560 litres, respectively. It was as low as 33, 29 and 18 percent of the total capacity respectively.	Due to insufficient milk stock required to utilize the machines at full capacity, the machines are underutilized.	Action should be taken to utilize the machines to their full capacity.
(iv) A contract value of Rs.9,932,709,286 was agrees for the establishment of the Badalgama Milk Processing Factory and Rs.11,671,726,295 had been spent on 31 December 2019 and the construction work of the project was currently being implemented. In the year 2019, the Ambewela factory, whose construction was completed under the modernization project, received only liquid milk for 25 percent of the machine capacity. After the completion of the currently under construction Badalgama factory, according to the machine capacity of the relevant factory, it was reported that the company needs 400,000 liters of liquid milk per day. It was observed that these machines are not able to be used at their full capacity as the daily liquid milk that can be collected by the institution for the other 04 active factories is about 200,000 liters.	Although there is some reduction in milk production in the country, in 2012 and 2017 we had to discard a significant amount of milk due to our milk collection exceeding our production capacity. Based on these facts, as the government agency engaged in milk production, the production capacity has to be maintained so that the farmers' milk harvest can be used in the production process without throwing it away.	Plans should be made immediately to utilize the machinery to its full capacity.

- (v) The company owns two lands, the 12-acre land where the Polonnaruwa Dairy Factory is located and another 37-acre land. But at the end of 2019, the company did not have the deeds and title deeds related to these two lands. It was revealed in the inspection carried out on 31 December 2019 that the sports club, dairy and cow shed built on the 37-acre land are currently not being used and more than 15 acres of land is idle without being used for any cultivation or construction.

Legal proceedings related to acquisition of lands are being carried out.

Idle lands should be utilized. Legal ownership of land should be obtained.

3.5 Procurement Management

Audit Observation

During the transportation of milk from milk collection centers under Milco to factories of Milco, Milco and milk tanks were transported by private bowzers. During the year 2020, 71 private bowser vehicles were used for transportation purposes and Rs.203,781,417 were paid for transporting 46,119,573 liters of milk from those vehicles in the year under review. It was observed that these bowser vehicles had been procured by the company without calling competitive prices as per the government procurement guidelines and 45 of these vehicles had been used by the company for more than 05 years.

Comments of Management

Until then competitive prices were called and the bowser vehicles transport contract was awarded, but as the prices were found to be very high, the then management decided to determine a maximum price according to a price formula. According to that price formula, there was a significant reduction in prices and that system is currently in effect.

Recommendation

Milk transport bowzers should be selected as per the government Procurement Guideline.

3.6 Commencement of Projects on Un acquired Land/Property

Audit Observation

According to plan No. 4754 surveyed on 10 March 1980, the land owned by the government on which the Ambewela factory is located is 40 acres, 01 rood 36 perches, and the company has paid Rs.5,548 million worth of construction and installation, but ownership of this land has not been transferred to the company till December 31 December 2022.

Comments of Management

Legal proceedings related to land acquisition are being carried out.

Recommendation

Actions should be taken to take over the ownership of this land.

3.7 Utilization of Resources of Other organizations

Audit Observation

Although the company used 2 jeeps and 02 lorries belonging to the Ministry of Agriculture for the use of factories and offices, it had not taken over the ownership till the date of audit.

Comments of Management

As these vehicles have been allowed to run without assignment, they have been used for running.

Recommendation

Action should be taken to take over the ownership of the vehicle.

3.8. Human Resource Management

Audit Observation

Details of the approved and actual carder of the company for the years 2021, 2021 and 2022 are as follows.

Comments of Management

Recommendation

Type of Employee	Approved Carder		2020	
	2020	Actual	Vacant	Excess
Senior Level	18	19	-	01
Tertiary Level	202	175	27	-
Secondary Level	873	425	448	-
Primary Level	485	762	-	277
	<u>1578</u>	<u>475</u>	<u>278</u>	<u>1410</u>

Type of Employee	Approved Cardre		2021	
	2021	Actual	Vacant	Excess
Senior Level	80	67	13	-
Tertiary Level	133	139	-	06
Secondary Level	529	447	82	-
Primary Level	836	757	79	-
	<u>1381</u>	<u>174</u>	<u>174</u>	<u>06</u>

Type of Employee	Approved	2022		
	Carder	2022	Actual	Vacant
Senior Level	80	63	17	-
Tertiary Level	133	135	-	02
Secondary Level	529	432	97	-
Primary Level	836	725	111	-
	<u>1381</u>	<u>1355</u>	<u>225</u>	<u>02</u>

- (i) In the year 2020, there were 277 employees exceeding the number of approved posts at the primary level, but 06 appointments were given for the post of maintenance and technical officer at the primary level for the year 2020.
- Although there is redundancy in certain categories of posts, vacancies are created in terms of overall posts.
- Vacancies should be filled immediately. Redundant employees should not be retained.
- (ii) In the year 2021, there were 79 vacancies of primary level employees, but 9 appointments were given in total for 8 site operator positions and one acting for water pump operator. For that, Rs.87,160 had been paid as acting allowances in the years 2021 and 2022.
- Even if there are vacancies in certain categories of posts, only those vacancies which should be filled by that time will be filled.
- Vacancies should be filled immediately. Redundant employees should not be retained.
- (iii) In the recruitment procedure for each position of the institute, it was stated that for the assistant manager positions of Milco Institute, a degree in the relevant subject should be the minimum educational qualification for the external applicants and a diploma in the relevant subject should be the minimum educational qualification for the internal applicants. However, 07 cases where applicants who did not meet the educational qualifications were appointed as assistant managers were observed during the sample test of audit.
- There have been no such recruitments in recent times and they have happened in the past.
- Disciplinary action should be taken against the officers who recruited the ineligible applicants. The mistake should be corrected.

4. Accountability and Good Governance

4.1 Planning

(a) Business Plan

Audit Observation

It was observed that the goals of establishing farmer management societies, establishing cooling centers and establishing 100 liters per day collection centers included in the action plan prepared for the year 2020 for the milk collection network expansion program are in conflict with the goals of the business plan.

Comments of Management

Although the business plan of 2018-2020 was based in preparing the action plan for the year 2020, the goals of the action plan took place in the changing and competitive environment of the business sector at that time.

Recommendation

When preparing the action plan attention should be given to the business plan.

(b) Action Plan

Audit Observation

Although the action plan prepared for the years 2020 and 2021 should include the annual budget, human resource development plan, internal audit plan, annual procurement plan and loan repayment plan according to Section 5(II) of the Public Finance Circular No.01/2014 and dated 17 February 2014, that information was not included. Information was only included about the targeted programs of each sector. Moreover, an action plan for the year 2022 was not submitted to the audit until 28 February 2023, the date of the audit.

Comments of Management

Action plan of Milco company, cash flow statements, capital expenditure plan, recurring expenditure plan are to be prepared separately. Also, these plans will be provided after the request is made by the Auditor General's Department.

Recommendation

An action plan should be prepared as per the circular.

4.2 Audit Committee

Audit Observation

Although audit committees should be held once in every three months, according to the paragraph 7.4.1 of Public Enterprise Circular PED 12 dated 02 June 2023 and Public Enterprise Circular 1/2021 and 16 November 2021, meetings covering the first 02 quarters of 2022 were not held.

Comments of Management

Due to the Corona pandemic situation in the country in the year 2020, it was not possible to hold the audit and management committee meetings properly, and the appointment of the members of the audit and management committee in the year 2022 has been delayed.

Recommendation

Meetings should be held once in a quarter as per the circular.

4.3 Meetings of Board of Directors

Audit Observation

According to paragraph 4.2.2 of Public Enterprise circular PED 12 dated 02 June 2003 and Public Enterprise circular 1/2021 dated 16 November 2021, the Board of Directors shall hold 12 meetings in the years 2020 and 2021, but only 06 and 05 meetings have been held in these years respectively.

Comments of Management

Due to the Corona pandemic situation in the country in the years 2020 and 2021, it was not possible to hold board meetings properly.

Recommendation

The meetings of Board of Directors should be held once a month as per the circular.

4.4 Budgetary Control

Audit Observation

Budget for the years 2020, 2021 and 2022 were not prepared and submitted according to paragraph 5.2.4 of PED 12 dated 02 June 2003.

Comments of Management

The final budget for the year 2022 has been prepared and is ready to be presented.

Recommendation

The final budget approved by the Board of Directors as per the circular should be submitted not more than 15 days before the beginning of the year.

4.5 Sustainable Development Goals

Audit Observation

Although the United Nations had introduced the Sustainable Development Agenda by 2030, based on the economic growth and social development and environmental protection plan of all the countries belonging to the organization, the company had not identified the desired objectives, targets and indicators to match it and lacked access to accurate data and methods of managing physical resources were also not identified.

Comments of Management

Role of Milco company is to improve the economic status of dairy farmers and provide nutritious food to the people. Accordingly, our company has aligned all functions to achieve sustainable development goals.

Recommendation

The desired objectives, targets and indicators should be identified and implemented according to the agenda of sustainable development.